

STATE OF WISCONSIN  
Department of Health and Family Services  
Division of Supportive Living

MEMO SERIES DSL 98-02

RE: Update on Policies Concerning Audit  
of Community Options Program  
(COP) Funds, and Audit of Other  
County and Tribal Administered  
DHFS Funds

To: Area Administrators/Assistant Area Administrators  
Area Agency on Aging Executive Directors  
Bureau Directors/Section Chiefs  
County Departments of Developmental Disabilities  
Services Directors  
County Departments of Human Services Directors  
County Departments of Social Services Directors  
County/Tribal Aging Directors  
County/Tribal Single Audit Liaisons  
County/Tribal Independent Auditors  
Direct Services Supervisors  
Licensing Chiefs  
Nutrition Project Directors  
Tribal Chairpersons/Human Services Facilitators

From: Sinikka McCabe  
Administrator

The federal government recently enacted several significant changes to federal audit policies. In one major change, the federal government abolished the previous Office of Management and Budget (OMB) circular (A-128) that had been the source of audit policies governing counties, tribes, and other governmental agencies. In its place, the federal government has made OMB Circular A-133 the source of federal audit policy for all governmental and non-profit agencies. The federal government also shifted the focus of federally required audits to be more risk-based, in which auditors focus limited audit resources on programs that are considered to be more at-risk of potential compliance or control concerns.

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#### DOCUMENT SUMMARY

As an amendment to the *State Single Audit Guidelines*, independent auditors conducting single audits of counties are authorized to test fewer Community Options Program (COP) client files, and are given updated instructions on when audit findings need to be reported. The Department also is de-designating Title III-B, Title III-C, and USDA - Food Distribution funds as "state" major programs for audit purposes, which should reduce audit costs. Other miscellaneous audit policies also are clarified.

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In light of these and many other federal audit policy changes, it is clear that some changes to state audit policies will need to be made, although the full effect of the federal changes is still being assessed by the Department of Health and Family Services (DHFS). The purposes of this memo are to:

- announce changes to DHFS policies concerning audits conducted by independent auditors of local administration of Community Options Program (COP) funds for fiscal years ending during 1997 with the goal of reducing audit costs and clarifying expectations of reporting COP audit findings;
- announce changes to audit policies governing Title III-B of the Older Americans Act - Supportive Services, Title III-C of the Older Americans Act - Nutrition Services; and U.S. Department of Agriculture - Food Distribution; and
- clarify procedures auditors are to use to determine when a state funded program should be considered a "major" program for audit purposes.

### **Auditing Community Options Program Funds**

The federal audit policy changes have prompted reconsideration of two COP audit policies. One concerns the number of case files that independent auditors are required to sample, while the other concerns when findings need to be reported.

**Sample Size.** The first issue concerns the long-standing requirement established in the *State Single Audit Guidelines* that independent auditors are expected to test 25 percent of the files of clients in the COP program. There has been increasing recognition within DHFS that maintaining a requirement for such extensive audit testing is probably no longer necessary to satisfy the state's audit and monitoring needs. Auditing to this level was necessary when the program was created, but the need has diminished over time as program requirements have become well understood and fully implemented by local staff. The Department will be formally amending the *State Single Audit Guidelines* applicable for fiscal years ending during 1998 to reduce testing requirements.

In the meantime, through this memo, we are authorizing a lower level of required testing for audits of years ending during 1997. We cannot accept testing of no COP client files. The state historically adopted a strategy of relying on the single audit, in lieu of adding state audit staff, to conduct limited compliance testing of COP files. The recent federal audit changes have created some barriers to continued reliance on single audits as a tool for monitoring in the same manner that the audits had been used in the past. Consequently, as noted above, some state audit policy changes will need to be made. However, the Department of Health and Family Services has not yet devised and implemented an alternative monitoring strategy to replace reliance on limited testing in single audits. Therefore, we conclude that some testing of COP client files is still necessary in audits of years ending during 1997 single audits for years ending during 1997.

Based on the Department's continued need for some minimum level of audit coverage of the COP program, we have concluded that independent auditors need to test a minimum of at least ten (10) COP files in a county. This policy change supersedes the requirements discussed on page F435-14.2 of the *State Single Audit Guidelines*. In making this policy change, two points need to be emphasized:

- The COP cases that auditors review can include some COP "overage" cases, or those cases in which COP funds are used to supplement funding for clients enrolled in the county's Community Integration Program (CIP) IA and CIP-IB.
- The minimum sample of ten (10) COP cases must be increased by the independent auditor and more case files need to be tested if: (a) the auditor's risk assessment concludes that additional testing is necessary; or (b) the testing of the first ten (10) cases uncovers a pattern of compliance problems that needs to be more fully addressed through additional audit work.

**Reporting of Findings.** Another federal audit policy change states that independent auditors are now required to report only questioned costs related to a finding of non-compliance, if the finding exceeds \$10,000, or would exceed \$10,000 if the auditor extrapolated the questioned costs to the larger population based on the audited sample. Prior to this change, any finding, regardless of how small or insignificant it was, had to be reported. The Department generally supports the goal of having auditors report only the most significant findings. However, this federal change creates a problem for DHFS.

In granting some relief from audit costs by limiting audit sample size, the Department also potentially reduced the likelihood that auditors will find non-compliance to such a level that auditors would be compelled to report their findings under the new federal rules. As a result, the audits for most counties will no longer offer any information on how effective counties have been in complying with COP program requirements. Audits are an important source of information that Department staff find useful in many ways, such as in identifying counties that may be in need of technical assistance on COP requirements.

To ensure that DHFS staff continue to obtain useful information on county COP programs in the annual single audit, the Department of Health and Family Services is establishing the following policies:

- For periods ending during 1997 county single audits, independent auditors will need to report questioned costs related to non-compliance with COP requirements only when the amount of the findings meets or exceeds five (5) percent of the dollar value of the sampled cases.
- Reporting of any non-compliance, even if the amount of questioned costs is less than five (5) percent, is expected and can be provided through the auditor's opinion on compliance, a management letter, or other appropriate means. As noted, this information is used to identify counties that may be in need of technical assistance.

**Auditing Administrative Charges.** Finally, we would like to use this opportunity to remind county officials and auditors of the Department's continued interest in having auditors test to confirm that counties are not exceeding the limit of using no more than seven (7) percent of COP funds to pay for administrative costs. The relevant audit testing requirement can be found on page F435-14.5 of the *State Single Audit Guidelines*. Testing through the single audit process is an important part of the Department's efforts to ensure that the vast majority of funds are put to use serving clients, while a limited but reasonable amount of COP funds support county operations. Auditors are expected to

test and report any findings in this area, which the Department will appropriately address through the audit resolution process.

### **Other Audit Issues**

Besides the changes in COP audit policies, the following additional audit policy changes and reinterpretations have been made.

First, DHFS has designated some programs in the *State Single Audit Guidelines* as "major programs," irrespective of risk or the funding levels provided by this Department to a county or tribe, which has the effect of requiring certain levels of audit testing by the county or tribe's independent auditor. Three of the programs designated as "major" are Title III-B of the Older Americans Act - Supportive Services, Title III-C of the Older Americans Act - Nutrition Services, and United States Department of Agriculture - Food Distribution (Aging Only). After reviewing our audit needs, we have concluded that the "major" designation is no longer necessary, and that the added audit testing required by the designation is creating unnecessary audit costs.

Therefore, with this memo, the Department is de-designating Title III-B, Title III-C, and USDA - Food Distribution as major programs. This decision supersedes the major program discussion in the *State Single Audit Guidelines*, on page F435-1.1. This change should contribute to modestly reducing audit costs, as auditors can determine the scope of audit work for these programs according to a general risk assessment that is applied to most other programs that are fully or partially federally funded. Auditors should note, however, that even if these programs are no longer declared a "major program," auditors may still end up testing transactions in these programs. When this occurs, auditors should still consult with pages F435-26.1 through F435-28.2 of the *State Single Audit Guidelines* for information on audit tests that can be performed.

Finally, the *State Single Audit Guidelines* note that a program can also be considered a "state major program" and, therefore, subject to expanded audit testing, if a county or tribe expended more than \$100,000 in state funds on the program in the county or tribe's fiscal year. To clarify some confusion on this matter, only the state portion of a program's funding should be considered when assessing whether the \$100,000 threshold has been met. For example, if a county or tribe expended \$200,000 in Medicaid funds for a particular program in a fiscal year, because the program funds are 60 percent federal and 40 percent state, the county or tribe would have expended \$80,000 in state funds on the program. This program would not be declared a "state major program" according to the \$100,000 criteria.

On a related audit policy matter, when determining a program's "major" status for federal A-133 audit purposes, auditors should count toward the \$300,000 threshold only the federal funds expended by the county or tribe. Federal and state funds should not be co-mingled for this purpose. For example, if a county or tribe expended \$350,000 on a program that was 75 percent federally funded, the federal spending on this program would be \$262,500, and the program would not automatically be considered a "major" program. The auditor, however, could determine that the program should be considered a major program for audit purposes, based on the results of the auditor's risk assessment.

We hope you find the above policy changes and clarifications to be helpful and contribute to achieving the goal of ensuring that cost-effective audits are performed.

CENTRAL OFFICE CONTACT: Patrick W. Cooper, Director  
Office of Program Review and Audit  
Division of Supportive Living  
1 West Wilson Street, Room 951  
P. O. Box 7851  
Madison, WI 53707-7851  
(608) 267-2846

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